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Independent Auditor's Report on Applying Agreed-Upon Procedures

April 22, 2015

Gerald Huber
Director of Health and Social Service
275 Beck Avenue
Fairfield, CA 94533

Re: CA Department of Health Care Services Audit Findings for Healthy Partnerships, Inc.

We have performed the agreed upon procedures to determine whether the findings noted in the audit letter from the California Department of Health Care Services (DHCS) to Healthy Partnerships, Inc. (HP), a contractor of Health and Social Services (H&SS), dated October 31, 2014 have been implemented. This engagement is solely to assist H&SS in verifying HP implemented the corrective action plan submitted to DHCS included in the above report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Schedule A for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings are described on Schedule A.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the County of Solano Substance Use Disorder Programs administered by Healthy Partnerships, Inc. for the period from July 1, 2010 through June 30, 2011. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of H&SS. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Respectfully yours,

Simona P Scholtens

Simona Padilla – Scholtens, CPA
Auditor-Controller

Solano County Department of Health and Social Services
Follow-Up Review of the California Department of Health Care Services'
Audit Findings for Healthy Partnerships, Inc.
Schedule A – Agreed Upon Procedures

Our review included the following procedures:

Finding No. 1 – Cost Allocation Plan

DHCS' Finding:	Revenue was used as a basis to allocate costs among the eight funding sources: Bay Area Service Network (BASN), CalWORKs (CW), NNA, Drug Medi-Cal (DMC), Prop. 36, Private Pay (PP), Outside Contracts (OC), and Driving-under-influence (DUI). DHCS determined that revenue was not a reasonable or proper basis to allocate costs.
DHCS's Recommendation:	Recommended that the Contractor not to use revenue to allocate costs since it is not a reasonable basis for cost allocation. There are other cost allocation methods that the Contractor can use, such as direct program salaries, direct program costs, or direct labor hours.
HP's Response:	Revenues are broken down by revenue stream and funding sources which are based on fee for service contracts. In late 2011, HP made organizational changes that categorized counselors as an expense under either ODF or DUI program services. Prior to this change, counselors could work in both the ODF and DUI program in one day making it very difficult to cost out their time. The separation of the counseling staff in FY 2011/12 HP improved cost allocation method.
DHCS's Conclusion:	The Contractor agreed to the finding and recommendation. Therefore, the finding will remain as written.
Procedures Performed:	1. Interviewed HP's management and accounting staff. 2. Interviewed HP's CPA consultant, Larry Shaw, CPA of Shaw & Associates. 3. Reviewed the cost allocation process implemented by Shaw & Associates to prepare the cost summary by cost center.
Conclusion:	Our review determined HP implemented a cost allocation method as recommended by DHCS. HP counts each treatment session as one unit of service (UOS) provided and uses the UOS as the basis to allocate costs among the different funding sources.

Finding No. 2 – Related Party Transactions

DHCS' Finding:	Healthy Partnerships entered into a lease agreement for $3,800 per month with Healthy Properties. This lease agreement amount covered $3,200 for a Vacaville location that provided treatment services and $600 that was used to lease two vehicles for site visits and daily business. Healthy Properties is a "General Partnership" that is owned by Steve Loveseth (62.5%) and Rosa Thomason (37.5%). These owners are also on the Board of Directors of Healthy Partnerships. The owners of Healthy Properties were in a related party transaction which could directly and significantly influence actions and policies of Healthy Partnerships.

DHCS's Recommendation: Recommended that in a related party transaction that the Contractor be limited to the reimbursement or the lower of lease payment or the cost of ownership which include, but are not limited to, interest, property taxes, insurance, repairs, and depreciation.

HP's Response: We accept this finding and have ended the automobile leases with Healthy Properties, LTD. (effective October 1, 2004), in favor of a car allowance for the CEO of $400 monthly. Currently the monthly interest ($594.47) and principal ($2,052.77) of the building in Vacaville totals $2,647.24. Healthy Partnerships, Inc. will pay this amount on a monthly basis to Healthy Properties, LTD.

DHCS's Conclusion: The Contractor accepted our finding; however, they stated that they ended the automobile lease with Healthy Properties and gave the CEO a monthly car allowance of $400. We recommend that the Contract obtain the board approval, maintain adequate records to support the costs, and charge the actual costs to each program.

In addition, the Contractor agreed to pay Healthy Properties, LTD monthly interest and principal of $2,647.24 for the building in Vacaville. We recommend the Contractor pay the lower of lease payment or the cost of ownership. The cost of ownership includes such costs as depreciation, interest on mortgage, real estate taxes, and other expenses attributable to the rented facility. Therefore, the finding remains as written.

Procedures Performed:

1. Interviewed HP's management and accounting staff.
2. Reviewed board minutes and confirmed the board approval of $400 monthly auto allowance to the CEO and payment of monthly building lease of $3,300 to Healthy Properties.
3. Reviewed the bill of sale for the van under lease with Healthy Properties and HP. We confirmed the termination of the auto lease.
4. Reviewed HP's profit and loss statement and their lease payment log.

Conclusion: Our review indicated HP's Board of Directors approved a monthly car allowance of $400 to the CEO and monthly building lease expense of $3,300. The car allowance is consistent with the corrective action submitted to the DHCS. However, the building lease payment of $3,300 exceeds the $2,647.24 lease payment HP indicated on its correction action plan. As a result, HP has not implemented the submitted corrective action.

Finding No. 3 – Internal Controls Assessment

DHCS' Finding: Reviewed and analyzed the completed Internal Control Questionnaires and found that the Contractor did not adequately separate the Executive Director's duties as they related to cash receipts, cash disbursements, cash receipts, payroll, purchasing and property management as indicated below:

Cash Disbursements:

1. Authorized purchases
2. Approved disbursements
3. Signed checks manually
4. Controlled blank check forms
5. Had access to safes

6. Checked invoices for arithmetic accuracy
7. Reviewed bank reconciliations

Cash Receipts:

1. Opened mail and received cash
2. Received counter collections
3. Prepared receipt forms
4. Prepared bank deposits
5. Made bank deposits
6. Controlled numbered receipt forms
7. Reviewed bank reconciliation

Payroll:

1. Signed payroll checks
2. Distributed payroll checks
3. Maintained vacation, sick leave, and overtime accumulation records

Purchasing and Property Management:

1. Approved purchase estimates, sub-purchase orders, and contracts
2. Received incoming equipment
3. Authorized equipment disposals
4. Disposed of surveyed equipment, equipment no longer used or needed.

As a result of the Executive Director's duties not adequately segregated, these were weaknesses in the internal controls which are needed to safeguard the Contractor's assets from misuse.

DHCS's Recommendation: Recommended that the Contractor do the following:

- Segregates the cash disbursement duties of the Executive Director as they relate to authorizing purchases, approving disbursements, signing and controlling checks.
- Segregates the cash receipts duties of the Executive Director as they relate to receiving counter collections, preparing receipt forms, and depositing of checks.
- Segregates the payroll duties of the Executive Director as they relate to signing payroll checks, distributing payroll checks, and maintaining vacation, sick leave, and overtime accumulation records.
- Segregates the purchasing and property management duties of the Executive Director as they relate to approving purchase estimates and receiving incoming equipment.
- Complies with applicable generally accepted accounting principles.

HP's Response:

A. HP revised fiscal practices after this audit period that include more detailed documentation of expenditures. The Chief Financial Officer (CFO), formerly known as the Accounting Manager; monitors and manages the accounting system; provides accounts payable lists to the Chief Executive Officer (CEO) - who has replaced the Executive Director - and after review and discussion with the CEO (the list is dated and initialed by the CEO), the CFO prints checks payable to vendors and/or other accounts payable.

B. HP revised fiscal practices after this audit period that include five (5) check points for cash receipts:

1) Counselors or clerical staff receive payments and write receipts;
2) Managers open mail prior to giving bills and payments to the CFO;
3) Managers pull receipt envelopes from the safe and set up bank deposits;
4) Clerical staff checks the deposit against the customer receipt data base log and balance the log to the deposit; and
5) CFO enters receipts into the accounting data base.

C. An outside contractor for payroll comes to the office two times per month to run payroll, maintain vacation, sick leave and overtime accumulation records. The CEO signs checks and the CFO places checks in envelopes for distribution by Managers.

D. HP's updated policy does not allow the person authorized to purchase equipment or other property for HP to also sign for the items purchased.

E. HP Executive Management and Shaw & Associates, CPA has improved fiscal management practices since this audit period. The separation and documentation of this separation is recognized through our policies and practices.

DHCS's Conclusion: We acknowledge the Contractor's comments concerning revising and updating their policies and procedures. Therefore, the finding remains as written.

Procedures Performed:

1. Interviewed HP's management and accounting staff.
2. Performed a walkthrough of the cash receipt, cash disbursement, purchasing, and payroll processes.
3. Reviewed HP's written policies and procedures.

Conclusion: Our review indicated that HP implemented the corrective action plan detailed above except for the following:

1. Cash Disbursement
   a. CEO authorizes purchases, approves disbursements and signs checks. As a result, the cash disbursement duties are not segregated as recommended by DHCS.
   b. Contractor did not maintain a control log to control the issuance of blank checks.
   c. Bank reconciliations are reviewed by an outside CPA, however there is no evidence of the review.
2. Cash Receipt
   a. Chief Administrative Officer (CAO) opens the mail but does not prepare a control log detailing cash receipts received. As a result, the cash receipt duties are not segregated as recommended by DHCS.
3. Purchasing and Property Management
   a. CEO periodically signs a blank check in advance (amount is left blank, but the payee is indicated) for office supplies purchases.

Finding No. 4 – Distribution of Timesheets

DHCS' Finding: The Contractor operated the following programs: Bay Area Service Network (BASN), CalWORKs, Prop. 36, Drug Medi-Cal (DMC), and Driving Under the Influence (DUI). Although the Contractor maintained timesheets for the programs based on total daily hours, DHCS could not determine which specific program the hours related to.

DHCS' Recommendation:	Recommended that the Contractor requires each counselor to complete their timesheets, so the hours reflect the specific programs each counselor worked.
HP's Response:	HP employee time sheets, after this audit period, reflect ODF program assignments for counselors. With counselors assigned to ODF services HP is able to track and monitor time spent. OP manager tracks time and allocates time or service activities, training, supervision and other meetings.
DHCS' Conclusion:	The Contractor agreed on the finding and recommendation. Therefore, the finding will remain as written.
Procedures Performed:	1. Interviewed management and accounting staff. 2. Reviewed timesheet records.
Conclusion:	Our review revealed that HP timesheet records do not reflect the hours each counselor worked by specific program. As a result, HP has not implemented DHCS's recommendation.

Finding No. 5 – Financial Statements

DHCS's Finding:	Noted that the balance sheet for the period ended June 30, 2011 current liabilities of \$61,907 exceeded the current assets of \$34,906 by \$27,001. In addition, the current expenses of \$887,901 exceeded the current revenue of \$869,174 by \$18,727. As a result of these two (2) financial issues, the Contractor's current ratio was 0.56% which the current ratio should be at least 2 to 1. In addition, the Contractor was operating at a deficit.
DHCS's Recommendation:	Recommend that the Contractor increase their working capital ratio to at least 2 to 1, and that they control their expenses within an approved budget.
HP's Response:	In the year before this audit time period (2010-2011), 2009, "Total spending per MediCal enrollee has increased relatively slowly over the past decade and was the lowest in the US in 2009" - The California Budget Project April 2013. In the light of this macro austerity it makes our 0.56% ratio understandable if not acceptable. HP has changed key personnel as a result of your findings. The Executive Director has been relieved and replaced by an individual with fifteen (15) years of managerial experience in a governmental (Contra Costa County Healthcare Services Department) Behavioral Health Care system. In the period of time since the audit, HP has pursued and won private insurance contracts with Blue Cross, Blue Shield, Aetna and United Behavioral Health; while also establishing contracts with publicly funded insurance entities such as Partnership Health Plan, Beacon, Managed Health Network, Tricare, and Medicare. These events have boosted our financial position while substantial cuts to employee benefits and payroll have led us to a much more viable fiscal scenario.
DHCS's Conclusion:	The Contractor provided their September 2014 bank statement along with the responses listed above. The total ending balance on the bank statement for September 2014 was \$4,585.05. We appreciated the Contractor's effort to improve their financial position.

However, they did not provide the current balance sheet and therefore we could not evaluate the current financial status. Therefore, the finding will remain as written.

Procedures Performed:

1. Interviewed HP's management and accounting staff.
2. Reviewed unaudited financial statements and computed the working capital ratio for the periods from 7/1/2013 - 6/30/2014 and 7/1/2014 - 1/31/2015.

Conclusion:

Our review indicated HP is still working to improve its financial position.

We evaluated HP's unaudited balance sheet and profit and loss statements. Based on our analysis below, HP's working capital ratio has improved since June 30, 2011, however it has not yet reached the recommended ratio of at least 2:1. HP's working capital ratio is still less than 1, which indicates it may not have sufficient short term assets to pay its short term debt obligations. As a result, HP has not fully implemented DHCS's recommendation.

For the period from	7/1/10-6/30/11	7/1/13-6/30/14	7/1/14-1/31/15
Current assets	$ 34,906	$ 47,946	$ 81,238
Current liabilities	61,907	80,978	88,271
Current liabilities exceeding Current assets	27,001	33,032	7,033
Working capital ratio	0.56	0.59	0.92